

25X1

Approved For Release 2004/06/29 : CIA-RDP85T00875R000700020023-4

Approved For Release 2004/06/29 : CIA-RDP85T00875R000700020023-4

Top Secret



25X1

Chinese Affairs

State Department review completed

25X1

Top Secret

56

25X1

December 26, 1973

25X1

Approved For Release 2004/06/29 : CIA-RDP85T00875R000700020023-4

Approved For Release 2004/06/29 : CIA-RDP85T00875R000700020023-4

Chinese Affairs

25X1



C O N T E N T S

December 26, 1973

Trade Wrap-Up	1
A Reply to Moscow	2
Madame Mao Makes Amends	3
Japan and China: Bilateral Negotiations	4
Fixing the Blame in Agriculture	5
A Peking-Hanoi-Bangkok Triangle?	6
<div data-bbox="332 1050 1412 1108" data-label="Image"></div>	
Diplomatic Notes	8
CHRONOLOGY	9

25X1

25X1

Trade Wrap-up

China's foreign trade increased at an unprecedented rate in 1973. Year-end trade figures indicate that world-wide inflation and the revaluation of major currencies contributed significantly to the increase. Judging from partial returns, total trade jumped from \$5.8 billion in 1972 to more than \$8 billion in 1973. Total imports may have increased to roughly \$4.5 billion, up from \$2.8 billion in 1972. Total exports increased more slowly, from almost \$3.1 billion in 1972 to perhaps slightly above \$4 billion in 1973. Peking's 1973 trade deficit with the non-Communist world was probably about \$500 million.

Sharp increases in imported agricultural products and acceleration in purchases of whole plants highlighted trade in 1973. Large purchases of wheat, corn, cotton, and soybeans were the major factor in the trade deficit with the non-Communist countries. The US, China's largest supplier of farm products in 1973, moved up to the number-two position among Peking's trading partners. Total Sino-US trade reached approximately \$800 million, of which about \$60 million were Chinese exports.* In 1973, China contracted for \$1.1 billion in whole plants from Japan, the US, and Western Europe and reverted to its pre-Cultural Revolution practice of making use of medium-term credits (five years) for a number of these facilities. China's export earnings in 1973 were boosted by increased rice exports at substantially higher world prices and by price hikes for most Chinese goods sold at the spring Canton fair.

Trade in 1974 will continue to increase at a substantial rate. Peking already has signed contracts for larger quantities of agricultural products in 1974. In addition, deliveries will begin flowing into the country under China's billion-dollar plant import program and the more than half billion dollars spent for other machinery and equipment contracted for in 1973. Trade with the United States in 1974 may surpass the \$1 billion level, primarily because of continued large-scale agricultural imports. The trade deficit with the non-Communist countries will again be substantial, but Peking is expanding its use of credits rather than restricting imports.

25X1

**This figure is about 15 percent higher than that reported by the US Department of Commerce, which uses a different methodology.*

A Reply to Moscow

25X1

Peking is responding to Soviet truntings over the Taiwan issue by accusing the USSR of promoting "two Chinas." Soviet propagandists have been charging the PRC leadership with selling out on Taiwan in order to improve relations with the US. On December 1, Moscow radio claimed the Shanghai and Kissinger communiques had modified Peking's position on Taiwan by dropping the demand for withdrawal of US military units from the island. The broadcast chided the PRC for not fulfilling its "boast about liberating Taiwan" and concluded that the US intends to use Taiwan as a military base indefinitely.

The Chinese riposte came in an NCNA article of December 14 which said Peking's stand on the Taiwan question was consistent and restated the PRC's minimal conditions that Peking is the sole legal government of China, that Taiwan is an integral part of China, and that the island must be liberated and China reunified.

The NCNA article went on to accuse Moscow of spreading the "fallacy of two Chinas," citing an October Novosti Press Agency item that lauded Taiwan as an "independent economic unit," and charged Peking with giving up the struggle to stop Western efforts to promote "two Chinas."

Peking has long been concerned that the USSR might attempt to make mischief in Taipei and its worries have grown as Sino-US relations have improved. Last June the Chinese ambassador in Tokyo remarked privately that his country was vitally concerned with keeping the Soviets out of Taiwan. The ambassador's remarks came only a few weeks after a small Soviet naval group had transited the Taiwan Straits in an obvious move to keep Peking guessing about Soviet intentions as well as to demonstrate Moscow's growing naval power. Peking is passing off the Soviet talk of "two Chinas" as a "waste of effort." This confidence may have been influenced by Nationalist Premier Chiang Ching-kuo's public warnings against Soviet influence in the Pacific.

Chiang's remarks reflect a decision on the part of the Nationalist Chinese not to turn to the USSR for support as the US improves its relations with the PRC.

25X1

Given Moscow's lack of success with low-level overtures to the Nationalists, Soviet propaganda about Taiwan appears designed primarily to embarrass the leadership in Peking and play on Chinese fears of Soviet diplomatic and military encirclement. The Taiwan problem also has nuisance value for Moscow as an impediment to better US relations with the PRC.

25X1

25X1

December 26, 1973

Chinese Affairs

Page 2

Madame Mao Makes Amends

25X1

Madame Mao was conspicuously absent from public view during October and November as the anti-Confucius campaign gathered momentum throughout the country. Her prolonged absence reinforced the notion that the campaign was directed at her. At the same time, some anti-Confucius articles warned of "counter-attacks" in the field of culture, the First Lady's main sphere of influence. Chiang Ching reappeared with Chou En-lai earlier this month but not until she offered some assurances that the latest opera written under her auspices, which some Chinese apparently interpreted as a slap at Chou, was not intended as a counterattack.

In late November, *People's Daily* re-interpreted the new opera to play down the obvious antagonism between the two main characters who appear to represent Chou and Chiang Ching. According to the new explanation, the opera actually shows the heroine's fondness and respect for the flawed hero. *People's Daily* described the headstrong hero as "still worthy of respect and love" and dismissed the conflict between him and the heroine as mere "contradictions" between comrades.

The new view of the opera seems clearly the work of a Chiang Ching on the defensive. It is a sharp turnaround from the official interpretation voiced earlier. In October, a new political journal published in Shanghai, which seems to function as a mouthpiece for Chou, painted a much darker picture of the friction between the opera's protagonists. The journal described the uneasy relationship as the central theme of the opera and stated flatly that the conflict was directly related to the current political struggle.

Among the pressures of the anti-Confucius campaign that could have nudged Madame Mao into a conciliatory gesture was a no-holds-barred account in *Red Flag* of how to deal with class enemies. Couched as an attack on those who would abolish the state, the article insisted the current state system must be maintained in order to "ruthlessly crush" resistance by the enemies. (In the extreme leftist view, China has advanced far enough on the road to communism for the state to "wither away" in accordance with orthodox Marxism.) In threatening tones, *Red Flag* defended the use of "revolutionary violence" against the Confucianists, who are described as "backward people" opposed to social change.

Although Chiang Ching's peace offering may indeed have been prompted by such threats, it is not likely that the current truce between her and Chou will be long-lasting. *Red Flag* noted pointedly that the Paris Commune failed because its "benevolence" toward class enemies gave them a "breathing spell" during which they regrouped for a counterattack.

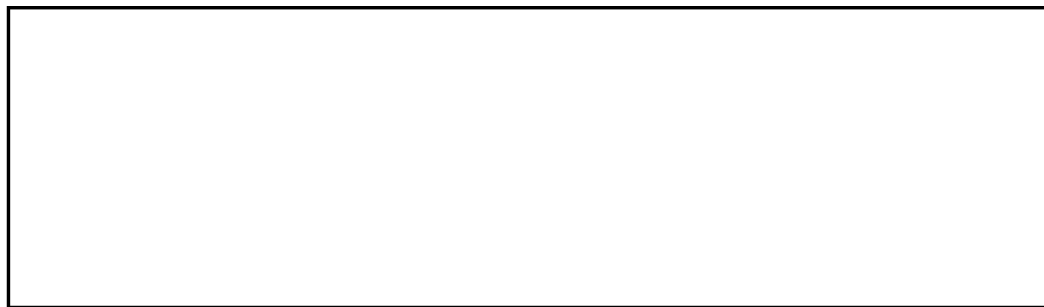
25X1

25X1

Japan and China: Bilateral Negotiations

The initialing of a trade agreement on December 12, indicates some progress in Sino-Japanese relations, but negotiations on the more important civil aviation accord are still stalemated. Chinese spokesmen have issued several conflicting statements that leave the exact Chinese position unclear.

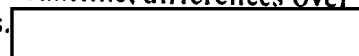
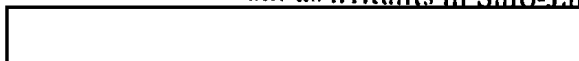
Liao Cheng-chih recently chided the Japanese for trying to persuade Taipei to change the name of China Airlines and remove its flag from planes flying to Japan, a statement that implied Tokyo had unilaterally decided on these actions. In fact, Peking has been pushing Tokyo to take this position for several months, and the Japanese appeared to be following China's lead.



25X1

---Chou En-lai has told visitors that he "understands" Tanaka's problems with the pro-Taiwan faction in the ruling Liberal Democratic Party and is prepared to be patient on bilateral issues; Chinese Foreign Ministry officials, however, have said that Tanaka's deference to this group could lead to an "unfortunate misunderstanding" with Chinese leaders.

Although it appears that Peking intends to stand firm for at least a symbolic alteration in the present status of Japanese-Nationalist air links, the exact formula acceptable to the Chinese is not yet evident. The formula itself- whether a flag or a name and/or a landing site change--is far less important than the principle at stake. Since Tanaka has promised that he will not act on the air accord until a consensus has developed in the LDP, it will probably be some time before a formula is found on which an acceptable compromise can be based. In the meantime, differences over this issue will remain as irritants in Sino-Japanese relations.



25X1

25X1

December 26, 1973

Chinese Affairs

Page 4

25X1

Fixing the Blame in Agriculture

China had a poor harvest in 1972, and this year's grain crop, although somewhat larger, probably failed to keep up with population increases. Imports and careful distribution will probably prevent any major hardship for the Chinese people, but the inability to improve crop production substantially is a drag on China's economic development and carries important political overtones. The shortfall is unlikely to result in any major change of policy or leadership, but moderate and radical elements are attempting to fix the blame for the shortages.

A radical approach can be seen in an article written by the Shanghai Meteorological Bureau in the November issue of *Red Flag*, the party's theoretical journal. The article contends that bad weather--the standard scapegoat of past years--is no excuse for poor farm production and asserts that correct policy and able political leadership can offset it. In a passage that can be read as an indirect attack on China's agricultural policy makers, the Russians are criticized for blaming their crop failures on the weather when in reality their own "revisionist" policies are at fault. The article presumably could be an indictment of present policy makers.

A more moderate position is found in a group of articles that began appearing in the provincial press shortly after the *Red Flag* article. Most of these articles stress errors by local cadre in implementing agricultural policy, thus shifting the blame for lagging production from national policy to local implementation. This point of view has apparently prevailed; with one exception, the interpretation of the November *Red Flag* has appeared nowhere else.

The so-called errors in implementation are unspecified "capitalist tendencies" and economic "sabotage." The calls to combat these "evil winds" are probably designed to encourage compliance with party policies rather than to launch a purge of basic-level cadre.

One specific goal is to discourage peasants from concentrating too much on more profitable, non-collective kinds of production, the so-called "sideline" occupations. Cadre are being warned not to submit to peasant pressures when distributing the harvest or to short-change the larger collectives by yielding to the temptation to retain as much of the harvest as possible in the producing units. The recent articles have generally referred to such sins in moderate terms, calling them "contradictions within the people" that are correctable through "line education and study."

The discourse in the press on agriculture is probably more political than economic, but present Chinese agricultural policy, with its emphasis on pragmatism, is not likely to change. As long as difficulties in agricultural production persist, however, policy makers will be vulnerable to criticism from political opponents whose real grievances probably lie elsewhere.

25X1

December 26, 1973

Chinese Affairs

Page 5

25X1

A Peking-Hanoi-Bangkok Triangle?

The US Consulate in Hong Kong has dispatched a thoughtful cable that describes the sources of tension in China's relations with North Vietnam. The consulate's analysis touches on the possibility that over the longer term Thailand might become an important factor in Peking-Hanoi relations. We find many of the consulate's views persuasive.

China does have a clear interest in preventing North Vietnamese domination of Indochina; such a powerful state on its southern borders would be undesirable and could become an effective competitor for influence elsewhere in Asia. Peking has ambitions of its own in this area and believes that Hanoi's sphere of influence should stop at Vietnam's borders. Through its active role in Lao and Cambodian affairs, Peking has offered whatever governments emerge in Vientiane and Phnom Penh the clear opportunity to use China as a balance against Hanoi. North Vietnam aims to ensure that governments in Laos and Cambodia are sympathetic to North Vietnamese interests and do not impede Vietnamese access to border regions of their countries.

We agree that Bangkok is not actively contesting North Vietnam's political influence in Laos or Cambodia, but the North Vietnamese probably regard Thailand as a political rival in these areas. Historically, the Thai and Vietnamese have fought and bargained for influence in the two states. Peking might hope that Bangkok's assertion of traditional Thai interests could serve to balance Hanoi's influence at no cost to China. Further, an active Thai-Vietnamese rivalry would ensure that there would be no dominant state on China's southern border with the capacity to threaten Peking's interests. One aspect of this scenario that appeals to Peking is that the Chinese need do nothing to set Bangkok in opposition to Hanoi in this region. Indeed, a visible Chinese effort in this direction would seriously foul Sino-Vietnamese relations.

Thailand affects China's ties with North Vietnam in another way. A good deal of the American air war against North Vietnam originated from bases on Thai soil, and Hanoi long has insisted that the US withdraw from such installations. As the consulate indicates, Peking opposes a premature pullout of US military power from Asia because it risks a vacuum that Moscow would be tempted to fill. Thus, the Chinese have indicated a tolerant attitude toward the continued presence of US forces. This is plainly one of the things Hanoi has in mind when it complains that China's pursuit of detente with the US undermines the Communist effort in Indochina.

25X1

December 26, 1973

Chinese Affairs

Page 6

Next 1 Page(s) In Document Exempt

Diplomatic Notes

25X1

More Criticism of Moscow

Over the last week, Peking and Moscow traded propaganda broadsides on a number of issues. Not only has there been a sharp exchange over Taiwan, but Moscow has attacked the Chinese ambassador to Tokyo by name. An especially harsh *People's Daily* article labels Moscow a "merchant of death" for selling arms at high prices in the Middle East and throughout the Third World. Soviet arms sales are detailed to show that Moscow's public calls for disarmament and reduction in defense budgets are a "sham." This is not a new theme, but, taken together, the recent exchanges represent a slight escalation in the ongoing cold war between the two powers.

South Korean Demonstrations

Peking has issued a *Commentator* article and organized three mass rallies in support of South Korean student demonstrations against the Seoul government. Except for Vietnam-related issues, the Chinese have not used mass rallies for some time in the foreign policy field. Both the *Commentator* and the rallies focus on Seoul's "fascist dictatorial rule" and its "plot" to maintain the division of North and South Korea.

Conspicuously absent from Peking's rhetoric, however, is any mention of the current tense naval confrontation between the two Koreas in the Yellow Sea. The Chinese have also avoided addressing more important issues, such as the continued presence of US troops in the South. Thus, while the form of Peking's action—the mass rally—is dramatic, its substance is very bland indeed.

25X1

CHRONOLOGY

5 Dec	Chinese delegation concludes visit to Communist-controlled portions of northeastern Laos. [REDACTED]	25X1 25X1
7-14 Dec	King of Nepal visits China, sees Mao, holds talks with Chou, attends normal round of banquets and tours outside Peking. [REDACTED]	
12 Dec	Sino-Japanese trade agreement initialed. [REDACTED]	25X1
14-15 Dec	Le Duc Tho stops over in Peking en route to meeting in Paris with Secretary Kissinger; sees Chang Chun-chiao, greeted at airport by Keng Piao. [REDACTED]	25X1 25X1
15 Dec	Czechoslovak trade delegation arrives in Peking. [REDACTED] Ceylonese ministerial-level delegation arrives in Peking to negotiate 1974 rice-rubber barter agreement; host is Foreign Trade Minister Li Chiang. [REDACTED]	 25X1